SUPREME COURT, U. S.

Supreme Court, U. S.
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JUN 14 1976
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

No. 75-1434

October Term, 1975

WALLACE CLARK & CO., INC.,

Petitioner,

v.

ACHESON INDUSTRIES, INC.,

Respondent.

PETITION FOR REHEARING

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PETITION FOR REHEARING

Petitioner, Wallace Clark, respectfully requests rehearing pursuant to Rule 58 of the Rules of the United States Supreme Court from the order of this Court denying certiorari of May 20, 1976.

The sole issue for which rehearing is requested is whether *Lear v. Adkins*, 395 U.S. 653 applies to post-litigation patent license agreements and consent judgments as well as prelitigation agreements.

The ground for this petition is based on a recent development, particularly a significant decision of the United States District Court for the Southern District of New York of *Diematic Mfg. Corp. v. Packaging Industries, Inc.* (A-1), reported at CCH Trade Cases, ¶60,877 (May 3, 1976). This decision extended the decision of *Wallace Clark* below to settlement agreements and dismissals, even in the absence of a consent decree. *Diematic* was expressly based on the holding of the Second Circuit in this case and specifically notices the existing confusion.

We submit that *Diematic* is strictly *contra* to *Kraly v. National Distillers and Chemical Corp.*, 502 F.2d 1366 (7 Cir. 1974) and *Rialto Products Inc. v. Rayex Corp.*, 166 USPQ 222. As a result, there is conflict and confusion in lower court decisions and a departure from the principles of *Lear v. Adkins*, 395 U.S. 653 sufficient for the Court to grant the writ within the meaning of Rule 19.1(b).

ARGUMENT

In *Diematic* the litigation concluded with a settlement agreement and a stipulation of dismissal. The court stated that *Lear* "injected some confusion in this area" (A-6) (see also fn 12). Relying on the principles of *Wallace Clark*, the

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Court then noted that a dismissal with prejudice was sufficiently akin to a consent decree. While this rationale proceeds from the holding that a consent decree is to be accorded res judicata effect, it is inconsistent with prior decisions as to post-litigation agreements, specifically *Kraly v. National Distillers and Chemical Corp.*, 319 F.Supp. 1349 (N.D. Ill. 1970); 502 F.2d 1366 (7 Cir. 1974) which was approvingly referred to in *Blonder-Tongue Laboratories v. University of Illinois*, 402 U.S. 313, 345, fn 43.

Thus the holding in *Diematic* is an extension of the principles of *Wallace Clark* and both are inconsistent with the interpretation of *Lear* by this Court in *Blonder-Tongue*, 402 U.S. 313, 346.

> "Lear permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate, secure in the knowledge that invalidity may be urged when the patentee licensor sues for unpaid royalties."

We respectfully request rehearing because the issue presented to this Court is most important in the practice of patent law. (See Highlights, BNA's Patent Trademark Copyright Journal, May 20, 1976, A-10). What appears to be evolving is a rule that a prelitigation license agreement does not bar the raising of the issue of validity, but if litigation is commenced and if any settlement is reached during litigation (post-litigation agreement), the old rule of licensee of estoppel may be resurrected.

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CONCLUSION

We submit that the decisions of *Wallace Clark* and *Diematic* illustrate clear uncertainty as to just how far *Lear* was intended to apply. For this reason we respectfully request rehearing.

Respectfully submitted,

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CERTIFICATE PURSUANT TO RULE 58

I, PAUL H. BLAUSTEIN, attorney for Petitioner, certify that this Petition is presented in good faith and not for purposes of delay.

I further certify that this Petition is restricted to grounds specified that there is a basis for rehearing because of confusion and inconsistency arising in the patent law over the effect of *Lear v. Adkins* as established in the recent decision, *Diematic Mfg. Corp. v. Packaging Industries, Inc.*

.....
Paul H. Blaustein

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Appendix A

(¶60,877) **Diematic Manufacturing Corp. v. Packaging Industries, Inc.**

U.S. District Court, Southern District of New York, No. 74 Civ. 1557-LFM. Filed May 3, 1976.

Sherman Act

Opinion

MacMahon, D.J. [*In full text except for omissions as indicated by asterisks*]: We deal here with three motions. First, defendant Packaging Industries, Inc. (Packaging) moves, pursuant to Rule 12(c), Fed. R. Civ. P., for judgment on the pleadings dismissing certain allegations in Count I and all of Count III of the complaint as barred by res judicata. Second, plaintiff Diematic Manufacturing Corp. (Diematic) moves, pursuant to Rule 56, Fed. R. Civ. P., for partial summary judgment. Third, Packaging moves, pursuant to Rules 13(f) and 15, Fed. R. Civ. P., for leave to amend its answer to include omitted counterclaims. We shall discuss these motions seriatim.

The history of this suit is outlined in our earlier opinion, dated September 13, 1974, granting Diematic's motion to stay arbitration and denying Packaging's cross-motions to compel arbitration and to dismiss the complaint for lack of subject matter jurisdiction and failure to state a claim.[1] The Court of Appeals dismissed Packaging's appeal from our decision on May 23, 1975 as not appealable under either 28 U.S.C. §1291 or §1292(a)(1).[2]

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1. *Diematic Mfg. Corp. v. Packaging Indus., Inc.*, 381 F. Supp. 1057 (S.D.N.Y. 1974).

2. 516 F.2d 975 (2d Cir. 1975).

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[*Packaging Patents*]

Both Diematic, a New York corporation, and Packaging, a Massachusetts corporation, manufacture trays and toolings for impulse sealing machinery used in connection with transparent blister packaging of small consumer items, such as razor blades. Both hold patents covering the process by which they produce trays. Packaging's patent is No. 3,170,275 (the '275 patent), issued on February 23, 1965. Diematic's patent is No. 3,617,696 (the '696 patent), issued in 1971.

[*Attempted Monopoly*]

This action was commenced by the filing of the complaint on April 5, 1974. Diematic, in Count I of the complaint, seeks essentially a declaratory judgment under 28 U.S.C. §2201 of invalidity and non-infringement of Packaging's '275 patent.[3] Count III alleges that the '275 pagent is invalid and unenforceable because it was obtained by fraud upon the United States Patent Office. This count also charges that Packaging has attempted to monopolize trade in heat impulse blister and card sealing machines and trays by virtue of its illegally obtained patent, in violation of Section 2 of the Sherman Act, 15 U.S.C. §2. Diematic seeks treble damages on this count, pursuant to Section 4 of the Clayton Act, 15 U.S.C. §15.[4]

[*Prior Litigation*]

Packaging asserts on its motion for judgment on the pleadings that paragraphs 1, 15(a) to (m), and 16 of

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3. Jurisdiction over Count I is invoked under 28 U.S.C. §1338(a).

4. Jurisdiction over Count III is invoked under 28 U.S.C. §§1337 and 1332(a)(1).

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Count I, and Count III in its entirety were previously litigated as counterclaims in a suit in this district entitled *Packaging Industries Limited, Inc. v. Diematic Manufacturing Corp.*, Docket No. 65 Civ. 2007 (the 1965 action). That suit was terminated on July 17, 1968 by the filing of a stipulation of dismissal which provided:

> The parties hereto stipulate that this case and the counterclaims are and shall be dismissed with prejudice as to all parties, as of this 15th day of July, 1968.

Packaging contends, therefore, that the allegations common to the present complaint and to the counterclaims raised in the 1965 action must be dismissed as barred by res judicata.[5]

Three elements must be present for a judgment in a prior suit to bar the maintenance of a subsequent action:

(1) the prior judgment must have been rendered by a court of competent jurisdiction;

(2) the judgment must have been a final judgment on the merits; and

(3) the same claims and the same parties were involved in both suits.[6]

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5. Diematic's contention that this assertion has already been decided by us in our earlier opinion, mentioned above, and thus is the law of the case is incorrect. The question of res judicata was neither briefed nor argued in the earlier application. The Court of Appeals noted, in its dismissal of Packaging's appeal, that "the appellant has raised for the first time the question of res judicata. Presumably, the defense will be raised in the answer . . . and the district court can determine that issue in the first instance." 516 F.2d at 980.

6. *Herendeen v. Champion Int'l Corp.*, 525 F.2d 130, 133 (2d Cir. 1975); *Commissioner of Internal Revenue v. Sunnen*, 333 U.S. 591, 597 (1948); 1B J. Moore, Federal Practice ¶0.410[1] at 1152-1153 (2d ed. 1974).

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There is no question that the first element is satisfied. Nor is it disputed that the same parties are involved. Diematic contends, however, that the other necessary elements—that the prior judgment was final on the merits and that the same claims are involved—are not present here. We shall deal first with Diematic's claim for declaratory relief.

[*Same Claims*]

The relevant criteria for determining whether claims raised in two suits are the same for the purpose of res judicata are

> whether a different judgment in the second action would impair or destroy rights or interests established by the judgment entered in the first action, whether same evidence is necessary to maintain the second cause of action as was required in the first, and whether the essential facts and issues present in the second were present in the first [footnotes omitted].[7]

Packaging attacks paragraphs 13, 15(a) to (m), and 16 of Count I in which Diematic alleges that the '275 patent is invalid, the reasons why, and that Packaging is estopped from contending that the claims of the '275 patent encompass Diematic's trays due to the "prior state of the art and the proceedings in the United States Patent Office."

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7. *Herendeen v. Champion Int'l Corp.*, *supra*, 525 F.2d at 133-134.

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[*Stipulation of Dismissal*]

The identical allegations were made by Diematic in the 1965 action.[8] Thus, if the stipulation of dismissal "with prejudice" operated as a final judgment on the merits, Diematic is barred from relitigating the question of the validity of the '275 patent.

We start with the proposition that, as a general rule, consent decrees are accorded res judicata effect.[9] And a stipulation of dismissal "with prejudice" is entitled to similar deference.

In *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483 (2d Cir. 1946), the court held that res judicata is not to be accorded to a consent decree in a patent suit unless it adjudicates both validity and infringement of the patent.

> [I]n a decree, at least in one entered by consent, either an adjudication of infringement, or a grant of some relief from which infringement may be inferred, is essential before any effect of res judicata can be given to it on the issue of validity.[10]

The rationale for this is that "[t]o hold a patent valid if it is not infringed is to decide a hypothetical case."[11]

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8. See paragraphs Third, Seventh and Fourteenth of the answer in the 1965 action.

9. *United States v. Southern Ute Tribe or Band of Indians*, 402 U.S. 159 (1971); *Siegel v. National Periodical Publications, Inc.*, 508 F.2d 909, 913 (2d Cir. 1974); 1B J. Moore, Federal Practice ¶0.409[5] at 1032 (2d ed. 1974).

10. *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483, 485 (2d Cir. 1946).

11. *Altvater v. Freeman*, 319 U.S. 359, 363 (1943).

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Lear, Inc. v. Adkins [1969 Trade Cases ¶72,823], 395 U.S. 653 (1969), injected some confusion into this area. There, the Supreme Court eliminated the doctrine of licensee estoppel, holding that a licensee's agreement not to challenge the validity of the licensor's patent is void as against public policy. The question which then arose was whether *Lear* should be extended to deny any res judicata effect to consent decrees in infringement suits. The Second Circuit, however, has ruled that *Lear* should not be so extended but that consent decrees should be accorded res judicata effect under the guidelines of *Addressograph-Multigraph*.[12]

We look, therefore, to the stipulation of dismissal in the 1965 action to determine whether the requirements for res judicata are present.

The stipulation of dismissal is quite unlike the usual form of consent decree used to terminate infringement actions. There is no express recitation of either validity or infringement of the '275 patent.

[*Licensing Agreement*]

Packaging urges that the stipulation of dismissal should be considered in conjunction with a licensing agreement, dated June 6, 1968, between Packaging and Diematic. This agreement does contain an express admission of the validity of the '275 patent. It also provides that Diematic shall pay $2,500 "as a paid up royalty and settlement in

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12. *Wallace Clark & Co. v. Acheson Indus., Inc.*, Docket No. 75-1483 (2d Cir. Mar. 26, 1976); *Broadview Chem. Corp. v. Loctite Corp.*, 474 F.2d 1391 (2d Cir. 1973). See also *Schlegal Mfg. Co. v. USM Corp.*, 187 U.S.P.Q. 417 (6th Cir. 1975). But *cf. Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366 (7th Cir. 1974); *USM Corp. v. Standard Pressed Steel Co.*, 184 U.S.P.Q. 476 (N.D. Ill. 1974), vacated in part, 188 U.S.P.Q. 52 (7th Cir. 1975).

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full," in return for a release by Packaging from its claims under the '275 patent. The obvious inference from this provision is an admission by Diematic of past infringement. Thus, this agreement embodies the factors necessary for res judicata under *Addressograph-Multigraph*.

Consent decrees, however, are contracts between the parties, acknowledged in court, and recorded with the sanction of the court, and, as such, are not treated as mere contracts. The licensing agreement between Packaging and Diematic, on the other hand, which was not embodied nor even mentioned in the stipulation of dismissal, represents a wholly private agreement between the parties. It should not, therefore, be considered in determining this motion.

This is not to say that a simple stipulation of dismissal with prejudice cannot be accorded res judicata effect in an infringement suit. It, like a consent decree, is an agreement recorded and acknowledged in court, and it is, therefore, generally entitled to res judicata effect on all matters over which it extends, for it is considered an adverse judgment on the claims so dismissed. Thus, if there is a clear implication in the stipulation of dismissal that Diematic has admitted both the validity and the infringement of the '275 patent, res judicata should apply, and Diematic may not attack the validity of the '275 patent in the present action.

[*Validity*]

Diematic alleged both invalidity and non-infringement of the '275 patent in its first counterclaim in the 1965 action. If the stipulation of dismissal is considered an adverse judgment on both of these issues, the requirements of *Addressograph-Multigraph* are met. It must be recalled,

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however, that Packaging, as plaintiff in the 1965 action, alleged that Diematic had infringed the '275 patent. The termination of this infringement claim by the stipulation of dismissal must be taken, for our present purpose, as an adverse judgment on that issue as well. Thus, there is no clear implication in the stipulation that there was an adjudication of infringement of the '275 patent by Diematic. Since a patent may not be adjudicated to be valid unless there has been an infringement, we find that the issue of the validity of the '275 patent is not foreclosed to Diematic by the termination of the 1965 action. We shall now consider Diematic's antitrust claim.

[*Differences in Antitrust Claims*]

Diematic does not dispute that the stipulation of dismissal "with prejudice" in the 1965 action was a final adjudication on the merits of the antitrust claims asserted. Diematic contends, however, that there are material differences between the antitrust claims asserted in the second counterclaim in the 1965 action and those asserted as Count III here.

An inspection of the pleadings in both actions reveals that paragraphs 35, 36, 37, 38, 39, 40, 41, and 42 of the present complaint are practically verbatim reproductions of paragraphs 17, 20, 21, 22, 23, 24, 25, 26, ad 2u of t e ameded answer in the 1965 action. These paragraphs alleged that Packaging obtained the '275 patent through false and fraudulent statements to the United States Patent Office, which fact renders the '275 patent void and unenforceable, and that Packaging has attempted to monopolize the heat sealing and blister tray trade by virtue of the '275 patent, in violation of Section 2 of the Sherman Act and Section 4 of the Clayton Act.

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[*Ban on Relitigation*]

The identity between these claims is clear, and, since the stipulation of dismissal with prejudice in the 1965 action acted as an adverse judgment on these claims, Diematic is estopped by res judicata from relitigating them here.

Diematic asserts that some issues raised in Count III do not relate to the alleged invalidity of the '275 patent and that those claims survive. We agree.

[*Unfair Competition*]

Count III, unlike the second counterclaim in the 1965 action, alleges that Packaging has misrepresented Diematic's rights to sell heat sealing trays, has disparaged the quality of Diematic's trays, and has harassed Diematic's customers. These assertions do not relate directly to the allegation that the '275 patent was obtained by fraud. A judgment for Diematic on these claims would in no way destroy Packaging's rights established in the 1965 action. Nor would the evidence be the same. And the essential issues present in the former action are not again involved here.

Diematic should not be foreclosed from asserting any antitrust claim if its underpinnings do not rest upon issues already adjudicated. Diematic, therefore, should be granted an opportunity to replead its antitrust claim, if it can, deleting the barred allegations.

. . .

Accordingly:

(1) Packaging's motion for judgment on the pleadings is granted to the extent that Diematic may not raise in Count III the issue of whether the '275 patent was obtained by fraud. In all other respects, the motion is denied;

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(2) Diematic's motion for partial summary judgment is denied; and

(3) Packaging's motion for leave to amend its answer to include omitted counterclaims is granted.

Diematic is directed to serve and file an amended complaint within fifteen (15) days, deleting the barred allegations and asserting as Count III its antitrust claim, if any. Within ten (10) days from the date that amended complaint is filed, Packaging shall serve and file its amended answer, and within five (5) days from that time, Diematic shall serve and file its amended reply.

So ordered.

Appendix B

BNA'S
PATENT, TRADEMARK & COPYRIGHT JOURNAL

HIGHLIGHTS **May 20, 1976**

Stipulated Dismissal Of Patent Suit Is Potentially Res Judicata: Stipulated dismissal of patent suit "with prejudice" is sufficiently akin to consent decree to be accorded res judicata effect, but only if its terms indicate that validity and infringement have been acknowledged. page A-9